

Welcome to the latest edition of our newsletter, our update on developments in the world of financial services.

If you have any questions about the issues raised in this issue, please do not hesitate to contact us.

## The potential policies of coalition

The UK's new coalition Government may not be quite what investors would have wished for but, then again, it is not as bad as they might have feared. Nevertheless, this is territory uncharted for at least a generation and one key area to consider is the policy changes the new Government could implement.

As yet there is relatively little clarity here with the Conservative-Lib Dem coalition simply underlining there is a very large hole in the nation's finances it needs to take steps to address. That said, there are some clear areas of focus.

The first – and perhaps most noteworthy – is capital gains tax. With top rates of income tax now at 50%, the disparity with capital gains tax, which is currently charged at 18%, is all the more apparent. A rise in capital gains tax to 40% or 50% was a significant pillar of Liberal Democrat policy and the new administration has said it will seek "detailed agreement" on taxing "non-business capital gains at rates similar or close to those applied to income".

It is not yet clear whether the new rules will include the abolition of the annual allowance, whether they may reintroduce indexation or whether they will only apply to certain sorts of asset. What is clear, however, is that clients should seek advice on this area – particularly where they have second properties or large portfolios. It may also breathe life back into the offshore bond sector.

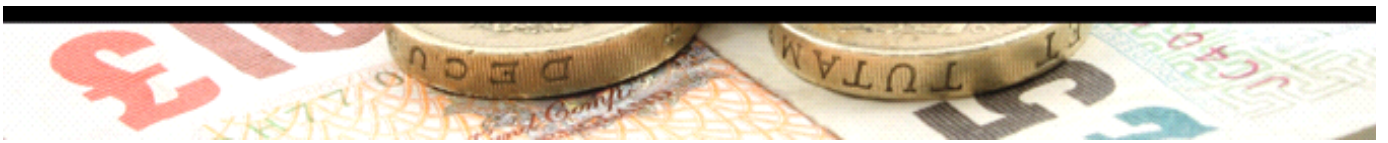
For the time being, plans for inheritance tax cuts have been set aside but the first Budget will see a significant increase in the personal allowance, to come into effect from April 2011. However, this is unlikely to reach the level of £10,000 set by the Lib Dems, which has been adopted as a "longer-term policy objective".

Pensions are unlikely to be left alone. Compulsory annuity purchase at 75 is set to go, which opens up some alternative income-generating options. The coalition has already stated it will restore the earnings link for the basic state pension from April 2011 with a guarantee that pensions will be raised by the higher of earnings, prices or 2.5%, as proposed by the Liberal Democrats. The retirement age is also likely to be raised.

The true extent of the compromise deal made by the Conservatives is unlikely to be seen until the first Budget, but this is a great time to start examining potential solutions so you are prepared when the details become clear.

### Contact Us:

Mr Raymond Marshall,  
Dumfries Mortgage &  
Property Shop, 9 English  
Street, Dumfries,  
Dumfriesshire, DG1 2BU.  
Tel: 01387 249304

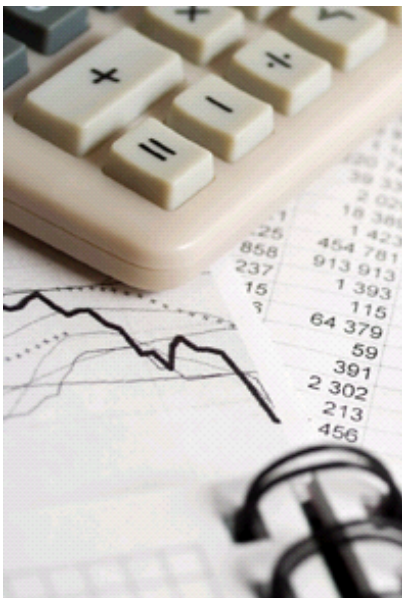


## Inflationary pressures rise

UK interest rates have now remained at their all-time low of 0.5% for over a year. The UK has crept tentatively out of recession but the new Government are now anxiously looking at ways to cut costs without doing anything to derail a very fragile recovery.

However, the UK Consumer Price Index reached 3.4% during March. In his open letter to the Chancellor of the Exchequer back in January, the Governor of the Bank of England (BoE), Mervyn King considered the rise to be a "temporary deviation" and suggested inflation will fall back below the Government-set target level of 2% in the second half of 2010. Even taking King's explanation for the sudden rise in prices into consideration, it is worth remembering the rate of inflation has almost doubled since November 2010. Indeed, only a few months ago, deflation seemed the more credible risk. In normal circumstances, the BoE would increase the cost of borrowing in order to cool inflation. However, rates are unlikely to rise in the short term because policymakers fear higher interest rates could endanger the UK's economic recovery.

Low interest rates are generally good news for borrowers, but are bad news for savers, who have already endured a year of exceptionally low interest rates. Returns on cash are meagre and high inflation is eroding the real value of cash. Looking ahead, Britons face the combined problems of high inflation and rising taxes, both of which will put additional – and unwelcome – pressure on disposable income.



## Planning for success

### Step No 4. BE SMART

Benjamin Franklin's belief that "by failing to prepare, you are preparing to fail" might be something of a cliché in the twenty-first century, but it is worth thinking about before you begin the financial planning process. Not only do you need to make your objectives clear, you can also make them SMART. This is business speak for making sure you are Specific about what you are trying to achieve, can Measure the success (or failure) to keep your plans on track, keep them both Attainable and Realistic given your own circumstances, and that in the end, you will see something Tangible in return for the work you have put in.

## Planning for success

### No 3. CONSIDER ALL EVENTUALITIES

Treated with respect, money can help you to achieve something of the life that you want. However, when considering your financial plan, you should take time to consider not only what you want to happen, but also what might happen whether you like it or not! If you are planning to retire soon, start a family, take a career break or to change your home, this is likely to affect the strategy that you choose. You also need to think who depends on you and might suffer were you no longer around. Whatever your circumstances, a little extra work in planning can help make sure you and your family are well equipped to deal with all eventualities.

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