



Touchbutton

No: 41, March 2016

The Chancellor's new best friends

George Osborne may not be flavour of the month with everyone right now, but his Budget should have won him plenty of new friends amongst the private client investment community.

His unexpected, but greatly welcome, reduction in Capital Gains Tax rates to 20% for higher rate taxpayers and 10% for lower rate taxpayers, fundamentally alters the investment landscape for the wealthier investor. Not only do lower CGT rates accelerate the pace at which investors with substantial long term gains can rebalance portfolios, it also makes the concept of investing for total return much more appealing.

Investing on a total return basis – that is to say, being broadly agnostic whether one's returns come from dividends or capital growth – is nothing new, and plenty of investors, including many of our clients, have successfully adopted such a strategy for many years. However, this substantial reduction in CGT rates makes the pursuit of capital returns, rather than income, much more attractive from a tax perspective. Put very simply, an extraction of £100 of gain from a portfolio will in future carry a higher rate tax charge of no more than 20%, whereas an extraction of £100 in the form of dividends could carry a higher rate tax charge of up to 38.5%. This is an over-simplification of the numbers, and ignores all personal allowances, but it is nevertheless a big gap.

Of course, there are no free lunches, and total return investing does carry the risk that the returns do not materialise on time, whereas dividends, generally speaking, can be relied upon to arrive safely most of the time. But this is an easily manageable risk that can be mitigated in a number of ways. At a time when dividends are under pressure across all markets, the attractions of total return investing look better than ever, and we can thank the Chancellor for making this approach even more attractive to tax paying investors.

Bordier & Cie (UK) PLC | Wealth Management since 1844

23 King Street | St James's | London SW1Y 6QY | t : +44 (0)20 7667 6600 |

bordieruk.com

