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BUDGET CREATES ADVICE DEMAND

Whilst the RDR is reported to have reduced adviser numbers, people in need of advisers' help would appear to be on the rise, which should present an increasing opportunity for advisers if they can target the right potential customers.

According to HM Revenue and Customs figures, in the three tax years 2010/11 to 2012/13, the number of basic rate taxpayers fell by over 2m from 27.1m to 25m. In this, three-fifths of these 2m people stopped paying tax altogether thanks to above inflation rises in the personal allowance, with over 800,000 moving from basic rate to higher rate. There are now over 4.1m higher or additional rate taxpayers in the UK. In that 3 year period, when the personal allowance rose from £6,475 to £8,105, the income threshold at which higher rate tax starts to be paid fell from £43,875 to £42,475, a drop of £1,400.

This year the personal allowance will rise to £9,440 and, as announced in the Budget on 20th March, it will rise again to the target of £10,000 in 2014. The point at which higher rate tax starts, however, will fall by over £1,000 to £41,450. If this creates higher rate taxpayers in similar proportions to the previous two years, another 600,000 extra people will start paying higher rate tax, many for the first time. Higher up the income scale, personal allowance continues to be withdrawn at the rate of £1 for every £2 of income over £100,000.

This is where advisers come in as a lot of that extra higher rate tax or the loss of personal allowance can be avoided. Over the same three year period, the number of people with income falling into the £100,000 to £150,000 bracket rose by 46,000, so it would be no surprise if inflation pushed another 20,000 plus into this income range in 2013/14.

With some careful pension planning a lot of that extra higher rate tax or the loss of personal allowance can be mitigated. Indeed, pension contributions have the effect of reducing income with marginal relief rates of up to 60% for those managing to reclaim their personal allowance, and 40% for those managing income back below the point at which higher rate tax starts to be paid. Add to this salary sacrifice can further increase the marginal rates of tax for employed customers, whose employers are prepared to agree to substitute pension contributions for pay. If the trend of real reductions in the thresholds for higher rate tax and personal allowance loss look set to continue for the future, the budget could produce a lifeline to advisers who may currently be struggling to demonstrate the value of their adviser charged propositions.

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