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Press Release

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Budget gives with one hand and takes away with the other

There was good and bad news for savers and investors in today's Budget, with positive measures introduced for ISA savers and parents of disabled children, while high earners' ability to receive top-rate tax relief on their pension contributions has been curtailed.

Those aged 50 and over have seen a rise in their annual ISA allowance from £7,200 to £10,200, of which £5,100 can be held in a cash ISA, instead of the previous £3,600 (While the new allowance is effective for the current tax year, investments over and above the old maximum will not be accepted until October, to allow Isa providers to update their systems.) These new limits will be extended to all ISA investors from the 2010/11 tax year.

Jason Hollands, Head of Corporate Affairs at major fund manager F&C Investments, commented: "Given the sharp declines in asset values prompted by the credit crisis, savers need all the help they can get to rebuild the value of their investments. We are therefore pleased that the Government has finally heeded the calls made year after year for a meaningful increase in the Individual Savings Account allowance. In more than a decade the allowance had only been increased by the derisory amount of £200. This increase to £10,200 goes some way to redressing the balance, although it remains materially lower than the combination of annual PEP and TESSA tax-free allowances that the ISA replaced.

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F&C Asset Management plc is the listed holding company of the F&C Group.

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“We note the proposed extra Government contributions to the Child Trust Fund accounts of disabled children [£100 a year, or £200 for severely disabled children] which will be welcome news for parents in receipt of these vouchers. CTFs have an important role to play in encouraging a long-term savings culture. Over the long term, the success of the CTF scheme will be driven by voluntary contributions over and above the taxpayer-funded vouchers. While the extra contributions to these children’s accounts is therefore clearly positive, we would like to see the size of the allowance for top-ups to the fund (currently £1,200 a year) being progressively reviewed each year and not remaining frozen at its current levels, as the ISA allowance essentially did for almost a decade. Even fully funded CTFs at current allowance levels are unlikely to generate sufficient funds to cover the full costs of a university education in 20 years’ time.”

While those earning over £150,000 a year will now be subject to a top tax rate of 50%, and personal tax allowances will be reduced by £1 for every £2 earned over £100,000, the news on pension contribution tax relief for high earners is not as bad as had been feared, though they will still see a reduction in the reliefs available. There will be a tapering of tax relief on contributions for those earning over £150,000, down to a rate of 20% (the same as basic-rate taxpayers receive) for earnings above £180,000. This is unlikely to be implemented until 2011/12, but to avoid those affected ‘maxing out’ their contributions in advance of the new regime, individuals in this bracket will be restricted to receiving higher-rate relief on the higher of £20,000 or their normal pattern of contributions.

It had widely been expected that tax relief could be withdrawn altogether for higher earners. Hollands adds: “We are therefore relieved that the Chancellor has not entirely abolished top-rate tax relief on pension subscriptions, as had been widely trailed ahead of the Budget. In our view this would have been very detrimental at a time when savers need to be supported and encouraged. However, there is a trade-off in pensions taxation. While payments in attract tax relief, payments out are taxable, and this new system represents an inequality for higher earners, who could be faced with paying higher-rate tax on pension income on which they received only basic-rate tax relief on the way in.”

For further information or to speak to Jason Hollands, please contact Sarah Godfrey, communications manager at F&C Investments, on 020 7011 4215.

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Notes to Editors

F&C Investments

- F&C Asset Management (F&C) is a London Stock Exchange listed asset management group which traces its origins back to 1868 with the launch of the Foreign & Colonial Investment Trust, the first ever publicly listed investment fund. Foreign & Colonial Investment Trust remains a client of F&C.
- F&C is an active fund manager with a multi-specialist investment model where individual teams have strong accountability for their products and processes. The group is also an active shareholder with a leading franchise in governance and sustainable investment.
- F&C now manages £98.6bn (€102bn) of assets* for a diverse range of institutional, insurance and retail clients across all major asset classes – equities, bonds, cash and property – as well as alternative and specialist product classes such as Socially Responsible Investment funds, hedge funds, funds of hedge funds, private equity funds, Global Tactical Asset Allocation products and Liability Driven Investments. F&C invests globally and has been a longstanding investor in emerging markets.
- F&C manages assets principally from three investment centres: London, Amsterdam and Edinburgh. The group has an office network spanning ten countries: China (Hong Kong), France (Paris), Germany (Frankfurt), Ireland (Dublin), The Netherlands (Amsterdam), Portugal (Lisbon), Sweden (Stockholm), Switzerland (Geneva), UK (London, Edinburgh, Dorking) and the United States (Boston).

* As at 31 December 2008.

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