

BUDGET NEWSLETTER



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In his first Budget as Chancellor, George Osborne announced that he is taking “tough, but fair” action to tackle the Budget deficit. This includes a major reduction in public spending, a two year freeze on public sector pay (except for workers earning less than £21,000) and increases in taxation; notably VAT and capital gains tax. He stated that he planned to achieve his goal by raising approximately 20% from increased taxation and 80% from “spending restraints”.

Changing the capital gains tax rules mid-year will inevitably cause some confusion and complications and it is ironic that in the same Budget document, the Government announced plans to create an independent “Office of Simplification”.

Income Tax

The Chancellor announced that the personal tax allowance for the under 65s will be increased by £1,000 to £7,475 in 2011/12. This is likely to be the first of a series of increases to reach a future target of £10,000.

The basic rate tax limit will be reduced by approximately £2,500 so that the benefit of the increase in personal allowance is targeted towards lower paid individuals.

The Chancellor also announced that the basic rate limit for income tax will be frozen in 2013/14 and that the 50% tax rate for taxable income above £150,000 will remain in place for the time being.

Value Added Tax and IPT

The standard rate of Value Added Tax (VAT) will increase from 17.5% to 20% with effect from 4 January 2011. The Government will introduce anti-forestalling legislation (effective from 22 June 2010) to prevent arrangements that might take advantage of the pending rate increase.

Zero rated and exempt supplies remain unchanged.

The higher rate of Insurance Premium Tax (IPT) will increase from 17.5% to 20% from the same date and the lower rate (the rate that applies to car and household insurances) will increase from 5% to 6%.

Capital Gains Tax

The Chancellor had previously announced that the Government intended to reform capital gains tax to align it more closely with income tax rates. In recognition of this objective, he announced that effective from 23 June 2010 capital gains tax will rise from 18% to 28% for those with total income and taxable gains above the higher rate threshold.

Capital gains tax will stay at 18% for basic rate taxpayers, but where chargeable gains and income exceed the basic rate limit, CGT will be payable partly at 18% and partly at 28%.

The new 28% tax rate will also apply to chargeable gains of trustees and personal representatives of deceased persons realised after 22 June 2010.

Gains realised before 23 June 2010 will not be added to post 22 June gains and will suffer tax at a maximum of 18%. Taxpayers will be able to deduct losses and the annual CGT allowance in such a way which minimises the tax due.

The capital gains tax annual allowance will remain at £10,100 for 2010/11 and will increase in line with inflation next year.

The Chancellor also announced that the 10% capital gains tax rate for entrepreneurial activities will be extended from the first £2 million to £5 million of qualifying gains made over a lifetime.



Pension Contributions

The Chancellor announced that, from April 2011, the Government will end the existing rules that create an obligation to purchase an annuity at age 75. In the meantime they will increase the age limit to 77.

There is a further proposed change to pension contribution limits from April 2011. The Government will consult further on this, but is likely to abandon the plan to introduce a high income excess pension relief charge from April 2011 and may instead introduce a new annual pension limit in the range £30,000 to £45,000.

National Insurance

National Insurance (NI) rates are due to increase by 1% in April 2011. The Chancellor announced that he intends to alleviate the impact of this by increasing the threshold for employer (but not employee) NI contributions by £21 per week above indexation.

The Government is also proposing to help new businesses starting up in certain areas outside London and the South East, by giving them a NI holiday for three years. This will be worth up to £5,000 per employee for their first ten employees. Details will be announced shortly.

Individual Savings Accounts

The Government has confirmed that it will index link the annual ISA subscription from 2011/12 and also confirmed that the "cash ISA" limit will remain at 50% of the main limit.

Employee Benefits

The Government had already announced that it intends to take action to tackle arrangements (including trusts) that are put in place to reduce or defer income tax and NI liabilities for employees. The Chancellor has confirmed that employer financed retirement benefit schemes are within the scope of this measure and that new legislation will be introduced to take effect from April 2011.

Tax Credits

From April 2011 the second income threshold for the family element of the Child Tax Credit will reduce from £50,000 to £40,000 and the baby element will be removed. There are also some changes in other areas, including "disregards".

Companies

The Chancellor announced that the Government aims to create the most competitive system of corporation tax in the G20. With this in mind he revealed that the Government will:

- Reduce the main rate of corporation tax from 28% to 24% over the course of the next four years. The reduction will be 1% per year, starting in April 2011
- Reduce the small profits rate (ie for companies with profits of less than £300,000) from April 2011 from 21% to 20%

Other Business Tax Matters

The Chancellor announced that the capital allowances main rate will reduce from 20% to 18% from April 2012 and the special rate will reduce from 10% to 8%. The Chancellor justified this change by stating that the Government believes that these allowances are broadly in line with commercial depreciation rates.

He also announced a reduction in the annual investment allowance from April 2012. This will reduce from £100,000 to £25,000.

Inheritance Tax

The inheritance tax allowance will be frozen at its 2010/11 level of £325,000 (£650,000 per couple) until 2014/15.

Furnished Holiday Lettings

The Chancellor announced that the Government will not repeal the special tax rules for furnished holiday lettings. Instead they will consult over the summer and make some changes from April 2011. The Government plans to change eligible thresholds and restrict the use of loss relief. In the meantime, the current rules continue to apply for 2010/11.

Please note that this only a brief summary of the budget proposals and that the rules are subject to change. The information given is of a generic nature and is not intended to constitute advice.

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