Provident Solutions

Wealth Creation & Wealth Management
Financial Lifestyle Planners

Emergency budget briefing - June 2010

INTRODUCTION

On Tuesday 22nd June 2010, the Chancellor of the Exchequer, Rt Hon George Osborne, MP, delivered his and the new coalition government's first budget in line with pre-election promises. It was an eagerly awaited budget - one that threatened significant measures to reduce government debt through higher taxation and curbs on public spending.

The speech painted a far bleaker view of the public finances than the new government had expected coming into office. The Chancellor emphasised the measures he would announce would not only 'balance the books' of the country, but set up the economy so that it grows on a sounder footing based on many industries and not just reliant on the Financial Services sector.

Key Points

- Capital Gains Tax for low and middle income individuals remains at 18%
- Capital Gains Tax for higher income individuals increases to 28% with effect from midnight 22nd June 2010
- Delay in compulsory annuitisation to age 77, until new rules are effective
- Income tax personal allowance for low earners will increase to £7,475 from April 2011
- Higher rate Income tax threshold will be frozen until at least 2013/14
- Consultation on Default Retirement Age announced but no changes will be made before April 2011
- Basic Rate Pension will be re-linked to earnings
- VAT increases from 17.5% to 20% from 4th January 2011

BUDGET - IMPLICATIONS

Private pensions

Delay in compulsory annuitisation to age 77

The requirement to purchase an annuity or secure pension income by age 75 will be abolished from 2011/12; the Government will consult on the new rules but until these are finalised will allow those reaching age 75 on or after today to defer securing their pension income until the age of 77.

By age 75, the individual must have taken their pension commencement lump sum and income withdrawal. During the transitional period the tax charge on lump sums paid on death lump sums will be 35% instead of the potential charge of up to 82%.

The Annual Allowance

The Labour Government had put in place measures to restrict higher rate tax relief on pension contributions from 6 April 2011. The new Government looks set to abandon these proposals and consider other simpler methods; this is most likely to mean a significant reduction in the annual allowance. The Government has mentioned £30,000 to £45,000, whereas many industry groups have proposed £50,000; the Government's main driver will be that the solution implemented raises no less revenue that the previous proposals.

The anti-forestalling rules for the current tax year remain in force.

State pensions

Increase in the state pension age brought forward

The government will move quickly to raise the state pension age to 66; no timescales have been given though there is an intention to implement the change well before 2024-2026 as proposed by the previous Government.

'Triple lock' for state pensions increases

The state pension will have a 'triple lock' meaning that it will increase each year in line with the higher of national average earnings, prices (RPI) or 2.5%, restoring the link to earnings which has been talked about for some time.

Capital Gains Tax

	April 2010 - 11	23 June 2010 - 11
Standard rate	18%	18%
Higher rate	n/a	28%
Entrepreneurs' relief rate	10%	10%
Annual exempt amount	£10,100	£10,100
Entrepreneurs' relief lifetime limit of gains	£2,000,000	£5,000,000

The budget announced that from 23 June 2010 capital gains tax will rise from 18 to 28 per cent for higher and additional rate taxpayers. This increase will also apply to trustees and personal representatives of deceased persons.

For individuals where total taxable gains and income are less than the upper limit of the income tax basic rate band the rate will remain at 18%.

The annual exempt amount (AEA) for 2010-2011 remains at £10,100.

What this means for investments

The Chancellor resisted calls from within his own party for some form of taper relief or indexation, arguing that such a measure would add complexity to the tax system. As such there will be no reduced rate of CGT for assets held as long term investments. For such longer term gains, a fairer tax system would have been to provide relief for inflation. A taxpayer who buys an asset for £100,000 and sells it ten years later for £130,000 when inflation over the ten years has been 30% has made no real gain, however, the rate of tax on the "gain" is now 28%.

Rebasing is one way of dealing with this problem but can be complex as it needs to be repeated at regular intervals. It is therefore more important than ever to take a holistic view to financial planning. When determining the choice of 'tax wrapper' for your investments (ISA, Investment Funds [OEICs & Unit Trusts], Onshore Investment Bonds or Offshore Investment Bonds] much thought will need to be given to any future income requirements and your likely tax status when benefits will need to be realised.

It is important to note that there has been no change to the tax treatment of either Onshore or Offshore Investment Bonds in the budget. The ability to withdraw up to 5% of the original investment each year for up to 20 years, without triggering a chargeable event (or tax liability) remains unchanged. This can be a tax efficient way of taking an 'income' from an Investment bond. This benefit is cumulative, allowing unused 5% allowances to be carried forward.

The need to thoroughly consider all taxation implications before choosing the 'tax wrapper' (type of investment) has never been more important!

Entrepreneurs' relief

The 10 per cent lifetime limit for entrepreneurs' relief rate will be extended from the first £2 million to the first £5 million of gains made over a lifetime.

Use of specialist trusts to reward employees

EFRBS

In the March 2010 Budget an announcement was made that there would be action to tackle arrangements using trusts and other vehicles to reward employees which seek to avoid, defer or reduce liabilities of employees and directors to income tax and National Insurance Contributions or to avoid restrictions on pensions tax relief.

The Government has confirmed that Employer Financed Retirement Benefit Schemes are within the scope of this measure. Legislation will take effect from April 2011.

Inheritance Tax

The only mention of inheritance tax was made in relation to the Disclosure of Tax Avoidance Schemes. The Government will consult over the summer on bringing inheritance tax on trusts within the Disclosure of Tax Avoidance Schemes regime.

Review of the taxation of non-domiciled individuals

The Budget announced that the Government will review the taxation of non-domiciled individuals, confirming the statement made previously in the Coalition Agreement. The aim will be to establish whether changes can be made to the current rules to ensure that non-domiciled individuals make a fair contribution to reducing the deficit, in return for greater certainty and stability for those bringing skills and investment to the UK.

The Government will announce further details on the scope and timeframe of the review in due course. Substantial changes are expected, given that only about 4,300 people are paying the new £30,000 charge, raising a total of £130 million, these changes may be politically rather than fiscally motivated.

Indexing ISA Limits from 2011

From 6 April 2011 the annual Individual Savings Account (ISA) subscription limits will increase in line with the Retail Prices Index (RPI). Indexation of the ISA limits for subsequent tax years will have effect on and after 6 April of each year.

The new annual limits will be rounded to the nearest multiple of 120, so that individuals who save monthly will be able to calculate their monthly savings more easily. The new limits will be calculated by reference to RPI for the September before the start of the new tax year. HMRC will announce the new limits as soon as possible after the RPI figure is published. So, for example, the 2011/12 ISA limits will be indexed to the published September 2010 RPI figure, rounded to the nearest multiple of 120. In the event that RPI is negative, the ISA limits would be unchanged. As is the case now, following indexation, the cash ISA limit will be half the value of the stocks and shares ISA limit.

Changes to Rates and Allowances

Main changes to rates and allowances in the tax year 2010-11 and the tax year 2011-12 were made. Announced changes to 2010-11 and 2011-12 rates and allowances for Value Added Tax (VAT), Insurance Premium Tax, income tax, National Insurance Contributions (NICs), indexation of benefits and tax credits, State Pension, Child and Working Tax Credits, Child Benefit, corporation tax on profits, a new bank levy, capital gains tax, cider duty and landline duty are set out below.

INDIRECT TAX

Value added tax

	April 2010 - 11	4 January 2011
Standard Rate	17.5%	20%
Reduced Rate	5%	5%

Insurance premium tax

	April 2010 - 11	4 January 2011
Standard Rate	17.5%	20%
Reduced Rate	5%	6%

National Insurance Contributions

The Budget announced that the level at which employers start to pay NICs will increase by £21 per week above indexation from April 2011. The value of indexation will be determined by data available in the autumn.

The Government will shortly announce a three-year scheme to exempt new businesses in targeted regions from up to £5,000 of class 1 employer NICs payments, for each of their first 10 employees hired in their first year of business. Subject to meeting the necessary legal requirements, the Government aims to have the scheme up and running by September, but any qualifying new business set up from today will also benefit.

The upper earnings limit and the upper profits limit will maintain alignment with the income tax higher rate threshold. Employee and employer rates.

National Insurance	Employee (Class 1 primary)		Employer (Class 1 secondary)	
Earnings per week	**April 2010 - 11**	**April 2011 - 12**	**April 2010 - 11**	**April 2011 - 12**
Below primary / secondary threshold	Nil	Nil	Nil	Nil
Above primary / secondary threshold*	11%	12%	12.8%	13.8%
Abover upper earnings limit	1%	2%	12.8%	13.8%

Self employed rates

	Class 2 (per week)*		Class 4	
Profits per year	**April 2010 - 11**	**April 2011 - 12**	**April 2010 - 11**	**April 2011 - 12**
Below small earnings exception	Nil	Nil	Nil	Nil
Small earnings exception to lower profits limit	£2.40	Not available**	Nil	Nil
Lower profits limit to upper profits limit	£2.40	Not available**	8%	9%
Above upper profits limit	£2.40	Not available**	1%	2%

*Class 2 NICs are paid at a weekly flat rate of £2.40 by all self-employed persons. Those with profits less than, or expected to be less than, the level of the small earnings exception may apply for exemption from paying Class 2 contributions.

**The exact figure for Class 2 for 2011-12 will be determined by data available in the autumn.

Indexation of benefits and tax credits

The Government will use the Consumer Prices Index (CPI) for the price indexation of benefits and tax credits from April 2011. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension. The Government is also reviewing how the CPI can be used for the indexation of taxes and duties while protecting revenues.

State Pension

The Government will increase the basic State Pension by a triple guarantee of the highest of; earnings, prices or 2.5 per cent from April 2011. The CPI will be used as the measure of prices, consistent with the Government's decision to index all benefits and tax credits by the CPI, although the basic State Pension will increase by at least the equivalent of the Retail Prices Index (RPI) in April 2011 to ensure its value is at least as generous as under previous rules. The standard minimum income guarantee for Pension Credit will increase in April 2011 by the cash rise in a full basic State Pension.

Child and Working Tax Credit rates

The Budget announced several changes to the Child and Working Tax Credit. Summarised below are the main changes coming into effect in April 2011. Full details of all changes are available in the Budget document.

The child element of the Child Tax Credit will increase by £150 above CPI in April 2011. The baby element of the Child Tax Credit will be removed from April 2011. In addition, there will be changes to the thresholds and withdrawal rates as set out below.

£ per year (unless stated)	April 2010 - 11	April 2011 - 12
Income thresholds and withdrawal rates		
First withdrawal rate	39%	41%
Second income threshold	50,000	40,000
Second withdrawal rate	6.67%	41%
Income disregard	25,000	10,000

BUSINESS AND FINANCIAL SERVICES

Corporation tax

The Budget announced annual reductions to the main rate of corporation tax. The main rate of corporation tax will be reduced to 27 per cent in 2011-12, with further reductions to 26 per cent in 2012-13, 25 per cent in 2013-14 and 24 per cent in 2014-15. It was also announced that a reduction in the small profits rate of corporation tax to 20 per cent from April 2011.

Corporate tax on profits	April 2010 - 11	April 2011 - 12
£0 - £300,000	21%	20%*
£300,001 - £1,500,000	Marginal rate	Marginal rate
£1,500,001 or more	28%	27%

* The small profits rate was due to rise to 22 per cent in 2011-12, as announced originally at Budget 2007 and deferred to 2011-12 at 2009 Pre-Budget Report.

Financial activities tax (Bank levy)

The Budget announced that a financial activities tax (bank levy) based on banks' balance sheets will be introduced, effective from 1 January 2011. It is proposed that the levy will be set at a rate of 0.07 per cent, with a lower initial rate of 0.04 per cent in 2011.

CAPITAL, ASSETS AND PROPERTY

Capital gains tax

The Budget announced that capital gains tax will rise from 18 to 28 per cent for higher and additional rate taxpayers on the sale of assets from 23 June 2010. (Any gains will be added to your taxable income to ascertain the rate at which CGT is paid). The 10 per cent lifetime limit for entrepreneurs' relief rate will be extended from the first £2 million to the first £5 million of gains made

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EXCISE DUTIES

Alcohol duty rates

From 30 June 2010, cider duty rates will be reduced as follows:

Rate £ per hectolitre of product	April 2010 - 11	30 June 2010 - 11
Still cider and perry: exceeding 1.2% - not exceeding 7.5% abv	36.01	33.46
Still cider and perry: exceeding 7.5% - less than 8.5% abv	54.04	50.22
Sparkling cider and perry: exceeding 1.2% - not exceeding 5.5% abv	36.01	33.46

Want to find out more?

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