

Emergency Budget June 2010

On 22nd June 2010, George Osborne delivered his highly anticipated Emergency Budget. Cutting the deficit and maintaining the country's AAA credit rating had been billed as the top priority. David Cameron had been warning for several weeks that we were all going to have to share the pain and that it wasn't going to be inconsiderable. In the end what transpired wasn't the flurry of heavy tax rises we had been braced for, however you can't help but believe the government is leaving itself scope for further rises down the line. At the heart of the budget was a message that economic growth, and consequently the recovery has to be generated by the private sector, and any revenue raising measures must bear this in mind.

Personal Taxation

- The main impact on most households will be an increase in VAT of 2.5% to 20%. However this will not be introduced until January 2011.
- Individual personal allowances will be increased in tax year 2011/12 by £1,000, from £6,475 to £7,475. This will reduce individuals' income tax liabilities by £200 (although it seems that adjustments will be made so that Higher Rate Taxpayers do not benefit).
- There will be a new rate of Capital Gains Tax (CGT) of 28% for higher earners, an increase of 10% above the basic rate. The annual exemption of £10,100 will remain. An important note is that if a gain added to an individuals income results in earnings above the higher rate threshold, the new higher CGT rate will be applicable on the excess gain over the threshold. This will lead to many basic rate payers suffering the higher rate of tax on large gains.

The recent actions we took to crystallise outstanding capital gains will have reduced the amount of gains that will be subject to this new higher rate, resulting in a potential 10% tax saving.

- The household income threshold for eligibility to tax credits will be reduced to £40,000.
- It was confirmed that ISA subscription allowances will rise annually in line with inflation, measured by RPI (rounded to the nearest £120).

Business Taxation

- Corporation tax will be reduced by 1% to 27 and by 1% annually over the next three years taking it down to 24%.
- The Small Profits rates (for companies making profits of less than £1.5m) will be reduced to 20%.
- Entrepreneur's Relief is to be extended, raising the amount of lifetime gains free from capital gains tax from £2m to £5m. This is good news for business owners, particularly as it seems that the rate effective rate of CGT for business assets remains at 10%.

Pensions

- Pensions tax relief was left unchanged, however there will be a review conducted. The government has raised the possibility of scrapping the tapering of pension tax relief for high earners due to come into effect in 2011, in favour of a reduced Annual Allowance. The potential new Annual Allowance would lie between £30,000 and £45,000. The existing anti-forestalling measures for 2010 will remain in place.

Care is still therefore needed for higher rate payers contributing to pensions this year. Please speak to us before making any contributions.

- The rules requiring compulsory purchases of annuities at age 75 are set to be scrapped. As a temporary measure the age limit will be increased until age 77. However entitlements to lump sum benefits would still be lost at age 75.

This area of legislation is likely to change over the next few years. Therefore anyone considering taking pension benefits over the next few years should speak with us, as there will be implications for tax free lump sums and Inheritance Tax.

- The state retirement age is set to be increased to 66 faster than expected, possibly by 2016. The default retirement age of 65 is also set to be scrapped.
- A 'triple guarantee' will be offered on the basic state pension, whereby it will be guaranteed to increase annually by the higher of inflation (measured by the Consumer Prices Index, CPI), national average earnings and 2.5%.

The immediate impact on the majority of people as a result of these measures, will not be heavy and it is unlikely that any specific action will be required to counter them. As always, we will keep on top of any future developments and keep you informed. If you would like any further information on any of the points raised in this briefing note, please do not hesitate to contact me.

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