

## **BUDGET JUNE 2010 BRIEFING NOTE**

### **Introduction**

George Osborne's "austerity Budget" focused, as expected, on spending cuts rather than tax increases; however with some tax changes, other omissions and promise of consultation on future policy the first budget for the coalition government has still given us plenty to think about.

### **Capital Gains Tax**

- From 23<sup>rd</sup> June 2010 higher rate tax payers pay 28% CGT.
- Gains that do not cause the basic rate income tax threshold to be crossed remain taxable at 18%. Gains made before 23 June 2010 will still be taxable at 18%.
- Gains made by trustees and Personal Representatives will be increased from 18% to 28% irrespective of the level of their income or capital gains (unless Entrepreneur's Relief applies – see below).
- Non-domiciled "remittance basis" users who pay the £30,000 charge will pay 28% on chargeable (i.e. remitted) gains.
- Beneficiaries of offshore trusts who receive payments from the trust can be charged to capital gains tax at rates of up to 44.8%.
- The annual capital gains tax exempt amount stays at £10,100.
- There is no taper relief or indexation allowance, which means that where investment assets have been held for many years, a significant element of tax may arise on what are effectively "inflationary" gains.
- As the increase will take effect for disposals made on or after 23 June 2010 there will be an unprecedented increase in direct tax rates in the middle of the tax year which will present an issue where capital gains are deemed to accrue "in a tax year" rather than on a particular date, such as remittances made by non-domiciled taxpayers and charges to beneficiaries on the distribution of gains from offshore trusts.
- As there will still be a potential 22% difference between income and CGT rates there is still scope for planning to maximise capital and minimise income returns.
- Entrepreneur's Relief, where gains are taxed at 10%, has been extended from £2 million to the first £5 million of lifetime gains.

## **Corporation Tax**

- Corporation Tax, currently at 28%, will be reduced by 1% each year over the next 4 years.
- The rate for smaller companies will be reduced to 20% from 21% from 1<sup>st</sup> April 2011.
- This will mean that the UK has one of the lowest Corporation Tax rates of the major western economies.
- The government will announce in the autumn a more detailed programme for reform of the UK Corporation Tax regime.

## **Income Tax**

- The main income tax personal allowance will be increased from £6,475 to £7,475 from 05 April 2011, with the intention to increase this to £10,000 when possible.
- The increase will be matched by a reduction in the basic rate threshold (currently £37,400) to ensure that higher rate taxpayers do not benefit from the increase.

## **National Insurance**

- Employers' National Insurance will take effect from a higher level of wages, up to around £20,000.
- There will also be a £5,000 exemption from employers' national insurance outside the South East of England, to help boost business around the country.

## **VAT**

- From 04 January 2011, the main rate of VAT will increase to 20% making accelerated capital expenditure to make the most of the lower rate attractive, though anti-forestalling measures are in place.
- VAT exempt items will remain so.

## **Pensions and EFRBS**

- The current complex legislation concerning pensions relief for high earners is to be repealed and replaced by an alternative approach involving a significant reduction in the annual allowance. Permitted contributions will obtain full tax relief but the annual allowance could be as low as £30,000 - £45,000. Contributions in excess of

this will be subject to tax. The existing anti-forestalling provisions will remain in place.

- Legislation is to be enacted in 2011 which will clamp down on Employer Financed Retirement Benefit Schemes and on the use of trusts to avoid or defer employee taxation.

### **Policy Review**

- A discussion document “Tax policy making: a new approach” was published with the Budget setting out changes in the way UK tax policy may be formulated and UK tax laws drafted. It is claimed that key features of the new approach will be restoring predictability and simplicity to the UK tax system.
- Measures include consulting a wide range of interested parties on a proposed change and publishing draft legislation three months before it comes into effect.
- A general anti-avoidance rule as part of the government’s strategic approach to tax avoidance may be introduced.
- There was no treatment in the Budget on a previously announced review of the taxation of non-domiciled UK residents.

This note is intended for general guidance only and it is important to consider the effect of the provisions with reference to the facts of each particular case. For further information or advice please contact **Chris Cooke, Karen Methold, Charlotte Johnson, Lawrie Kearns or James d’Aquino.**

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Whilst every effort has been made to ensure that the information contained in this briefing is correct it is intended as a guide only and should not be relied upon when embarking on any tax or estate planning exercises. Specialist legal advice should always be sought so that all the factors specific to your circumstances can be taken into account.