

Briefing Note: June 2010 Budget (Private Client)

An Introduction to the Guide

This guide sets out some of the main changes introduced by the June 2010 Budget as they effect individuals. This guide should not be relied upon as legal advice and you should contact us for advice on your specific circumstances.

Capital Gains Tax (CGT) rises to 28%

For gains arising on or after 23 June 2010, the rate of CGT will increase to 28% for higher and additional rate taxpayers, trustees and personal representatives. Basic rate taxpayers will continue to be liable at 18%. The new rate will apply equally to any deferred gains that come into charge on or after 23 June 2010. The annual exempt amount will remain at £10,100 for the tax year 2010-11.

IHT nil rate band to remain frozen at £325,000 until 5 April 2015

The inheritance tax (IHT) nil rate band will remain frozen at £325,000 until 5 April 2015.

50% income tax rate to remain in place

The 50% additional income tax rate will remain in place for the time being. The rate took effect on 6 April 2010 and applies to income over £150,000.

Furnished holiday lettings rules will not be withdrawn

The government announced that it will not proceed with the proposal to withdraw the furnished holiday lettings (FHL) rules. The existing rules will continue to apply to holiday lettings situated in the UK or elsewhere in the European Economic Area during the tax year 2010-11.

Requirement to annuitise at age 75 to be deferred to age 77 pending consultation

The existing annuitisation rules, effectively requiring members of registered pension schemes to buy an annuity by age 75 will be abolished from 2011/12. In the meantime, the requirement will be deferred for any members who reach age 75 on or after 22 June 2010, they will not have to buy an annuity until they reach age 77.

Stamp duty land tax (SDLT) rates

A new SDLT rate of 5% for purchases of residential property where the consideration exceeds £1 million, will take effect on 6 April 2011. The previous highest rate was 4% for purchases where the consideration exceeds £500,000. All other SDLT rates and thresholds remain unchanged.

First-time buyer "relief"

In the March 2010 Budget, the former Labour government announced the introduction of SDLT relief for first-time buyers of residential property where the consideration does not exceed £250,000. In the June 2010 Budget, the new government said that it will review first-time buyer relief taking into account its impact on affordability and value for money. The existing nil rate of SDLT on residential purchases not exceeding £125,000 continues to apply as before (which means that it is not limited to first-time buyers).

ISA limits to be linked to inflation from 6 April 2011

Limits on tax-free investment in individual savings accounts (ISAs) will increase in line with the retail prices index (RPI) from 6 April 2011. If the RPI is negative, the limits will remain unchanged.

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Summary:

This checklist summarises the most important private client tax announcements in the June 2010 Budget.

For detailed advice on all Private Client matters please contact:

Christopher Bean
Partner

01323 435900
cjb@gabyhardwicke.co.uk

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Entrepreneurs' relief increases to £5 million

With effect from 23 June 2010, the lifetime limit for entrepreneurs' relief will rise from £2 million to £5 million. Currently, entrepreneurs' relief achieves an effective rate of tax of 10% on the first £2 million of qualifying gain by reducing the gain by 4/9 and taxing the balance at 18%. However, as a consequence of the introduction of the 28% rate of CGT, the method of giving the relief will be reformulated so that a tax rate of 10% will apply to the first £5 million of qualifying gain.

The increased limit will apply in relation to disposals on or after 23 June 2010. To the extent that any gains realised by the taxpayer before that date exceed the current £2 million lifetime limit of entrepreneurs' relief, CGT will remain payable at the full rate of 18% on the excess, but only the £2 million of relief claimed will be set against the increased limit for future qualifying disposals.

PPR preserved for adult placement carers

The rules for principal private residence relief (PPR) from CGT will be amended to ensure that the relief is preserved where a carer provides accommodation to a vulnerable adult under an Adult Placement Carers (APC) scheme. PPR provides relief from CGT when an individual disposes of his dwelling house (or an interest in a dwelling house) that has been his only or main residence at some point during his ownership. PPR is not available on any part of a dwelling house that is used exclusively for the purposes of a trade, business, profession or vocation. The proposed amendment will ensure that occupation of part of the carer's house by an adult in care will not restrict the relief.

Assistance for shared lives carers confirmed

Legislation will be introduced to establish a new income tax relief for shared lives carers (that is, those who share their homes and family life with individuals, including adults, placed with them under the shared lives scheme). The relief, which will be known as "qualifying care relief", will be introduced as soon as possible after the summer recess. It will allow shared lives carers to claim a tax free allowance and will be available from 2010-11.

Reduction in tax and National Insurance Contributions (NICs) for the lower paid

With effect from 6 April 2011, the personal allowance for those aged under 65 will increase by £1,000 to £7,475. However, legislation will be introduced to ensure that higher rate taxpayers do not benefit from the increase. This will be achieved by lowering the threshold above which higher rate tax is paid. The exact figure will be announced in the autumn, as it will depend on the movement of the RPI in the year to September. The government has also confirmed that the higher rate lower threshold will be frozen in 2012-13.

For NICs, the increase of £570 in the primary (employee) threshold, which was announced in the March 2010 Budget, will take effect from 6 April 2011 to coincide with the increase of 1% in employee contributions (from 11% to 12%).

If you would like to know more about this topic or our other legal services, please contact:

Gaby Hardwicke
33 The Avenue
Eastbourne
East Sussex
BN21 3YD

Tel: 01323 435900
Fax: 01323 435901
info@gabyhardwicke.co.uk
www.gabyhardwicke.co.uk