

## **Budget Report 2010**

The notes below provide you with a high-level summary of some of the key aspects from yesterday's Budget Report. The Government has taken the opportunity to announce a number of consultations which they intend to undertake later in the year. Please remember the Budget proposals will not become law until the Finance Bills (as there may be two) are passed.

Despite the Chancellor confirming that borrowing for 2009/10 is projected to be some £11 billion lower than expected, the overall debt and continued need to borrow over the next four years means there was always going to be very little in the way of 'giveaways' in this Budget Report.

The Chancellor stressed the successful measures taken to 'secure the recovery', such as the car scrappage scheme increasing sales by 30% and the one-off tax on Banking Bonuses, introduced in the Pre-Budget Report, reaping some £2 billion in tax revenue. However, there is a long way to go to reduce the country's debt and many of the changes announced today are minor alterations to the existing tax and financial system. In a theme which has been constant in recent years, further anti-avoidance legislation is also proposed.

## **Impact on Financial Planning**

### **Income tax and allowances**

There were no changes to the previously announced rates of tax and allowances. The 50% rate announced in the Pre-Budget Report will become effective on 6 April 2010 along with the reduction of personal allowance for income in excess of £100,000.

### **Pensions and retirement planning**

#### **Implementing the restriction of pensions tax relief**

Legislation will be introduced in Finance Bill 2010 to recover tax relief above the basic rate on pension contributions made by or on behalf of individuals with high income. For people with annual income of between £150,000 (inclusive of employer contribution for those with incomes of £130,000 or more) and £180,000, tax relief on pension contributions (including the value of employer contributions for those in employment) will reduce gradually from the individual's marginal rate to the basic rate as income increases. Where income is £180,000 or over the measure restricts tax relief on pension contributions to the basic rate.

The restriction of pension tax relief will have effect on and after 6 April 2011.

#### **Current law and proposed revisions**

The Government announced in Budget 2009 its intention to restrict tax relief on pension savings with effect from 6 April 2011 for high income individuals.

These rules will affect individuals with income of £150,000 or over. For the purposes of this measure, income is calculated before deduction or relief for pension contributions and charitable donations. For those in employment it includes the value of any pension benefit funded (or eventually funded) by their employer where the individual's income is £130,000 or more.

A taper will apply for those on incomes between £150,000 and £180,000, gradually reducing tax relief on pension contributions until it is restricted to the basic rate. This restriction will apply to the individual's contributions and to any pension benefit funded (or eventually funded) by their employer. The rate of tax relief on pension contributions will be determined by where individuals lie on the taper.

To prevent bringing forward pension contributions that would otherwise have been paid after April 2011, a special annual allowance applies for the 2009/10 and 2010/11 tax years for individuals with income of £130,000 or over. Tax relief above the basic rate is recovered from pension savings above an individual's special annual allowance by the application of the special annual allowance charge. An individual's special annual allowance is the higher of their regular pension savings and £20,000 (or in certain circumstances where contributions have been less regular than quarterly, £30,000).

### **Lifetime Allowance and Annual Allowance**

As announced in the 2008 Pre-Budget Report, the 2010/11 Lifetime Allowance of £1.8 million and Annual Allowance of £255,000 will continue to apply, with their rates held constant for a further five tax years, i.e. up to and including the tax year 2015/16. A Treasury Order has been laid before Parliament today to put this into effect.

### **Changes to pension taxation – NEST and unauthorised borrowing**

#### **This measure will:**

- allow the National Employment Savings Trust (NEST) to register with HMRC for tax purposes, and be subject to the same tax rules as other tax-registered pension schemes;
- remove the tax liability on any interest charges on late pension contributions made by an employer to qualifying pension schemes;
- provide a regulation-making power to deal with any unintended tax consequences that may emerge as a result of the implementation of NEST and the employer duties and compliance as set out in the Pensions Act 2008; and
- remove the tax charge on borrowing linked to the cost of establishing and operating a registered pension scheme, subject to conditions.

The amendments will have effect on and after the date that a Finance Bill introduced in the next Parliament receives Royal Assent.

### **Pensions Act 2008: employer duties**

The Pensions Act 2008 places a duty on employers to ensure that their jobholders are active members of a pension scheme. The introduction of this 'automatic enrolment' duty is planned for 2012.

The Pensions Act 2008 also obliges the employer of a jobholder to make pension contributions to qualifying pension schemes. When the contributions are paid late the employer may, at the Pensions Regulator's discretion, be asked to pay interest to their jobholder's pension account.

Under section 369 of the Income Tax (Trading and Other Income) Act 2005, the jobholder would be taxed on any interest paid by employers to a jobholder's pension account. This tax charge on the jobholder will be removed.

## **Tax-efficient vehicles**

### **Indexing Individual Savings Account limits from 2011**

From 6 April 2011 and on an annual basis thereafter, ISA limits will be increased in line with the Retail Prices Index (RPI).

The annual increase will be based on the RPI figure for the September before the start of the tax year and, if the RPI is negative, the limits would be unchanged. The new annual limits will be rounded to the nearest multiple of 120 – this is to ensure increases to monthly savings ISAs are divisible by 12.

The cash ISA limit will remain at half the value of the stocks and shares ISA limit after indexation. This new approach will therefore allow the benefits of ISAs to be increased in real terms in future years. The ISA allowance for the 2010/11 tax year is £10,200.

### **Venture Capital Trust Schemes and Enterprise Investment Schemes**

Changes will be made to the operation of Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes, effective from the date that the Finance Bill receives Royal Assent.

This means that VCTs will be able to be listed on markets throughout the EU/European Economic Area (EEA). The changes therefore expand the geographical scope of VCT and EIS schemes, as well as making additional classes of shares available. The tax treatment and operation of other aspects of these schemes remain unchanged.

## **Stamp Duty**

### **Rates and thresholds**

The new higher rate will apply to residential purchases where the effective date (normally the date of completion) is on or after 6 April 2011.

At present the highest Stamp Duty Land Tax (SDLT) rate of 4% applies to purchases where the consideration exceeds £500,000. A measure will be included in Finance Bill 2010 to add a new rate of 5% for transactions in residential property where the consideration for the transaction exceeds £1 million.

### **First time buyers**

Legislation in Finance Bill 2010 will introduce relief from SDLT for purchases of residential property at up to £250,000 where the purchaser or all the purchasers is/are first time buyers and intend to occupy the property as their only or main home. The new relief will be available for residential purchases where the effective date (normally the date of completion) is on or after 25 March 2010 and before 25 March 2012.

## **Capital Gains Tax (CGT)**

The rate of tax for mainstream CGT remains at 18% and the annual exempt amount of £10,100 remains unchanged.

## **Inheritance Tax (IHT)**

### **Nil-rate band**

The 2009 Pre-Budget Report announced that legislation will be introduced in Finance Bill 2010 to freeze the IHT nil-rate band limit for the tax year 2010/11 at the current level of £325,000. This will now be extended to cover the tax years 2011/12 to 2014/15.

### **Anti-avoidance**

#### **The remittance basis: relevant person**

The remittance basis is an optional basis of taxation available to individuals who are resident but either not domiciled or not ordinarily resident in the UK. Any foreign income or gains of an individual, which are remitted to the UK by way of a relevant person or for the benefit of a relevant person, are taxed on the individual. A relevant person is widely defined and includes the individual, their spouse, civil partner, children and grandchildren under the age of 18. It also covers close companies and their subsidiaries in which such people are participators.

A relevant person is defined in Section 809M Income Tax Act 2007; this definition is being amended to clarify that a subsidiary of a non-UK resident company, which would be a close company if it was resident in the UK, will be treated as being a relevant person for the purposes of the remittance basis. This change comes into effect on 6 April 2010.

#### **Review of HMRC powers, deterrents and safeguards: tackling offshore tax evasion**

Legislation is being introduced to provide greater penalties for taxpayers who fail to declare the full extent of their offshore income or capital gains. The penalty framework will work in the same way as it does currently, however the absolute level of the percentage used to determine the tax-gear penalty will be determined by the jurisdictions in which the failure to declare arises. There are a number of factors which need to be assessed before determining the level of percentage, the outcome of which could result in the individual paying the level currently set or 1.5 or 2 times the current published percentage. This new penalty framework is expected to apply to the tax period commencing on or after 1 April 2011.

### **Summary**

I hope you find this summary useful. As ever, the need for advice on these issues will be critical for clients to fully understand the impact of the changes. Please get in touch if you wish to discuss any aspect in further detail.