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Vestra Wealth Emergency Budget Review

Introduction

The purpose of this document is to highlight the main changes announced in the Budget that will affect the majority of our clients. It is not an exhaustive list as many points are still to be clarified. We believe it is important to constantly review the impact of tax changes on the portfolio construction and therefore recommend you speak further with your investment manager or one of the members of our Wealth Planning Team.

Summary

Our concern has always been the level of indebtedness of the UK. The Budget has attempted to strike a fair balance between public spending cuts and an increase in taxation. We are pleased that the lobbying, which we participated in, on the need to not stifle entrepreneurs has been partly recognised. We would like some of the concessions to have gone further but recognise a balance is required. Economic growth is key to our recovery; firms and entrepreneurs need to feel motivated to generate that growth.

The steps taken to remove the wastage in public spending is welcome as it helps taxpayers believe the pain is being shared by all. We welcome the moves to simplify the tax legislation which will encourage people to make their own provision for retirement.

Key Areas

Capital Gains Tax (CGT)

- the CGT rate remains at 18% for basic rate taxpayers,
- higher and additional rate taxpayers will pay 28% on disposals made on or after 23rd June 2010 (the higher rate also applies to trusts and legal personal representatives as well as those who pay CGT on a remittance basis),
- there will be no re-introduction of the complex taper relief or indexation allowance,
- the annual exemption for Individuals in 2010/2011 remains at £10,100,
- the annual exemption for Trust Capital Gains for 2010/2011 remains at £5,050.

The increase in CGT highlights the importance of structuring your financial assets to maximise the net return on the portfolio and our Wealth Planning team are happy to assist in this. There will need to be transitional rules for issues arising out of pre and post 23 June gains and losses.

CGT for Entrepreneurs:

Entrepreneurs Relief has had the lifetime limit increased from £2m to £5m. This applies to:

- gains made on the disposal of all or part of a business, or
- gains made on disposals of assets following the cessation of a business,
- by individuals who were involved in the running of a business.

With effect from 23 June 2010, the first £5m of gains that qualify for entrepreneurs' relief will be charged to CGT at an effective rate of 10%. Gains in excess of £5m will be charged at the 28% CGT rate.

Claims for relief can be made on more than one occasion, up to a lifetime total of £5m. (If an individual made disposals exceeding the previous £2m limit before 23 June 2010, they will not be able to claim the £5m relief but will be able to use the balance of the allowance for any future disposals.)

There have been no announcements with regards any changes in qualifying conditions for Entrepreneurs relief.

There were no announcements with regards to employees in company share incentive schemes being shielded from CGT.

Income Tax and National Insurance:

- basic personal allowance will increase to £7,475 from 6 April 2011 (for basic rate taxpayers),
- the previously announced 1% increase in National Insurance rate will come into effect in the 2011/12 tax year.

The top threshold for Class 1 NIC will increase by £21 per week in addition to the annual inflationary increase.

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Corporation Tax:

- reduced by 1% to 27% on 1 April 2011, reducing it down to 24% by 1 April 2014,
- the small companies rate of tax, paid by companies with profits below £300,000, is to be reduced by 1% to 20%, aligning the rate with the basic rate of income tax.

Individual Pensions:

- the requirement to buy an annuity at 75 will cease from April 2011. Pending implementation of necessary changes, legislation will be introduced in the Finance Bill 2010 to increase this to 77, at which point members will have to buy an annuity of secured some form of pension income,
- transitional measures will apply to those who reach 75 in the intervening period,
- similar transitional arrangements will apply to proposed inheritance tax changes,
- the complex proposed changes to tax relief for high earners will be scrapped and replaced with a reduced annual allowance (likely to be around £40,000 pa),
- EFRBS are unregistered retirement benefit schemes subject to different tax and National Insurance requirements. Many people have considered using them as an alternative pension planning device. The Government has confirmed that they are within the scope of the proposed anti-avoidance provisions which are likely to be brought in by April 2011.

We welcome the proposed changes to purchasing an annuity as providing greater choice to the individual. The changes to simplify the tax relief on pension contributions is also welcome but needs to be kept high to allow those who were perhaps unable to contribute to pensions earlier in their life to catch up at a later point when many other commitments fall away. We recommend that any EFRBS planning be deferred until the anti avoidance legislation is clear on how it will affect these products.

State Pensions:

- basic state pension will increase by the higher of the increase in earnings, the Consumer Price Index (CPI) or 2.5%,
- the second state pension (which replaced SERPS) will be increase in line with the CPI.

VAT:

- VAT has been increased to 20% on supplies made on or after 4 January 2011,
- current reduced rate, zero-rated supplies and exempt supplies are unaffected,
- increases will affect businesses that participate in the flat rate scheme on or after 4 January 2011 as these rates will be adjusted to reflect the increase.

The deferral of the VAT increase until January 2011 will assist in keeping inflation down this year and is probably one of the most efficient ways of raising additional revenue – it is expected to raise an additional £13bn per year.

Anti-forestalling legislation has been introduced to combat artificial arrangements, and the penalty regime for income tax and corporation tax has been extended to VAT resulting in higher penalties for late quarterly returns.

Resident Non-Domiciles

The taxation of non UK domiciled individuals will be reviewed again.

Furnished Holiday Lettings:

The previously announced decision to abolish tax reliefs for furnished holiday lettings is to be reversed, although further changes could be introduced post 6 April 2011.